

Message Text

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SUBJECT: STATE PRESIDENT'S REVIEW OF SOUTH AFRICAN ECONOMY

REF: CAPE TOWN'S 0134 (NOTAL)

1. SUMMARY. ECONOMIC CONTENT OF PRESIDENT'S SPEECH AT OPEING OF PARLIAMENT REVEALED LITTLE NEW. HIGH RATE OF ECONOMIC GROWTH WAS MAINTAINED IN 1974 BUT IMPOSED CONSIDERABLE STRAIN ON CAPITAL RESOURCES AND BOOSTED MERCHANDISE IMPORTS. SLOWDOWN BEGINNING IN THIRD QUARTER REDUCED PRESSURE. MINING AND AGRICULTURAL SECTORS REACHED NEW HIGHS. DESPITE UNFAVORABLE OUTLOOK ABORAD SOUTH AFRICA IS IN GENERALLY STRONG POSITION AND SOUND RATE OF GROWTH SUBSTANTIALLY HIGHER THAN AVERAGE FOR WESTERN WORLD IS ANTICIPATED IN 1975. CONFIDENCE IN GOLD REMAINS UNSHAKEN. SPEECH DEVOTED MINIMAL ATTENTION TO LABOR RELATIONS, EDUCATION AND SOCIAL BENEFITS FOR POPULATION MAJORITY. END SUMMARY.

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2. STATE OF THE ECONOMY. HIGH GROWTH RATE WAS ATTAINED OVER

PAST YEAR WITH NOTABLE INCREASE IN GROSS FIXED INVESTMENT ESPECIALLY IN MINING AND MANUFACTURING INDUSTRIES, BUT THIS IMPOSED SEVERE STRAIN ON CAPITAL RESOURCES, NECESSITATED GREATER INVESTMENT IN INFRA-STRUCTURE AND BUILT UP PRESSURE IN THE LABOR MARKET. SUBSTANTIAL COMMODITY PRICE INCREASES, INCLUDING CRUDE OIL, AND INCREASED IMPORTS OF PLANT, MACHINERY AND EQUIPMENT CAUSED SHARP RISE IN TOTAL MERCHANDISE IMPORTS FOR 1974. EASING OF GROWTH RATE IN THIRD QUARTER, DUE PARTLY TO CONSERVATIVE FINANCIAL POLICY, LOWERED PRESSURE ON CAPITAL AND LABOR MARKETS AND HAD SALUTORY EFFECT ON BALANCE OF PAYMENTS. IMPORTS TENDED TO LEVEL OFF WHILE INFLOW OF CAPITAL INCREASED APPRECIABLY WITH NARROWING OF GAP BETWEEN DOMESTIC AND FOREIGN INTEREST RATES.

3. OUTLOOK. DESPITE UNCERTAIN FINANCIAL SITUATION ABROAD AND GENERAL EXPECTATION THAT 1975 WILL BE MARKED IN MOST COUNTRIES BY LOW RATES OF GROWTH COUPLED WITH CONTINUED INFLATION, SOUTH AFRICA GENERALLY IS IN STRONG POSITION TO TEMPER OR WITHSTAND ADVERSE OVERSEAS INFLUENCES AND EXPECTS MAINTAIN SOUND RATE OF GROWTH, SUBSTANTIALLY HIGHER THAN AVERAGE FOR THE WESTERN WORLD.

4. INFLATION. IN ADDITION TO PROVEN FISCAL AND MONETARY MEASURES, GOVT IS FIGHTING INFLATION WITH COLLECTIVE COOPERATIVE EFFORT RATHER THAN APPLICATION OF DIRECT ECONOMIC CONTROLS WHICH ARE IRRECONCILABLE WITH SOUTH AFRICA'S OVERALL POLICY OBJECTIVES, AND BY PROMOTING PRODUCTIVITY AND COMPETITION TO INCREASE OUTPUT OF GOODS AND SERVICES THROUGHOUT ECONOMY.

5. GOLD. DESPITE ATTEMPTS ABROAD TO BELITTLE THE ROLE OF GOLD AS A MONETARY METAL, ITS LONG TERM PROSPECTS ARE EXCELLENT. THE GRANTING OF TWO SUBSTANTIAL STATE LOANS WITHIN THREE YEARS FOR NEW MINES UNDERLINES GOVT'S CONFIDENCE IN FUTURE OF GOLD.

6. IMPORT RESTRICTIONS. GOVT IS PROCEEDING WITH GRADUAL EASING OF IMPORT RESTRICTIONS CONSISTENT WITH INTERNATIONAL TREATY OBLIGATIONS AND ITS DECLARED POLICY OF KEEPING OPEN REASONABLE OPPORTUNITIES FOR SALE OF LOCALLY MANUFACTURED PRODUCTS IN THE DOMESTIC MARKET.

7. EXPORTS. GOVT WILL CONTINUE FORGE CLOSER ECONOMIC AND TRADE TIES WITH OTHER COUNTRIES. MERCHANDISE EXPORTS INCREASED CON-

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SIDERABLY BY VALUE IN 1974. VARIOUS INCENTIVES OFFERED TO LOCAL EXPORTERS BY GOVT DID MUCH TO IMPROVE EXPORT PERFORMANCE IN PAST YEAR.

8. PETROLEUM. UNCERTAINTY ABOUT OIL SUPPLIES, SOARING OIL PRICES AND URGENT NEED TO BUILD UP OUR OIL RESERVES IMPOSE AN OBLIGATION TO CONSERVE FUEL AS MUCH AS POSSIBLE.

9. AGRICULTURE. TOTAL VOLUME OF AGRICULTURAL PRODUCTION WAS HIGHEST EVER IN 1974 AND GROSS FARMING INCOME TOPPED THE R2,000 MILLION MARK FOR THE FIRST TIME. IN VIEW OF CRITICAL INTERNATIONAL FOOD SITUATION, A SUSTAINED INCREASE IN FOOD PRODUCTION IN THE REPUBLIC IS REGARDED AS A TOP PRIORITY TO CONTINUE PROVIDING FOR INCREASING DOMESTIC NEEDS AND TO INCREASE EXPORTS.

10. MINING. THIS INDUSTRY IS EXPERIENCING PHENOMENAL GROWTH AND TOTAL SALES VALUE OF S.A. MINERALS REACHED NEW PEAK DURING PAST YEAR. THIS GROWTH RATE IS EXPECTED TO CONTINUE IN 1975 AND ACCELERATE TOWARDS END OF THIS DECADE. IMPORTANT NEW MINERAL DEPOSITS HAVE BEEN DISCOVERED AND PROMISING PROSPECTING RESULTS POINT TO FURTHER IMPORTANT DISCOVERIES.

11. LABOR. ECONOMIC DEVELOPMENT IS CREATING INCREASING JOB OPPORTUNITIES AND THE NUMBER OF REGISTERED UNEMPLOYED CONTINUES TO CONSTITUTE LESS THAN ONE PERCENT OF THE NUMBER EMPLOYED. SHORTAGE OF TRAINED WORKERS IN CERTAIN SKILLED OCCUPATIONS CONTINUES TO RECEIVE ATTENTION, AND VOCATIONAL GUIDANCE IS BEING GIVEN TO YOUNG PEOPLE. SEVERAL TRAINING SCHEMES HAVE BEEN INTRODUCED UNDER THE INDUSTRIAL CONCILIATION ACT AND RECLASSIFICATION OF SKILLED WORK IS CONTINUING WITHIN THE FRAMEWORK OF COLLECTIVE BARGAINING. SATISFACTORY PROGRESS IS BEING MADE WITH TRAINING PROGRAM FOR AFRICAN WORKERS IN WHITE AREAS IN WHICH THEY MAY BE LEGALLY EMPLOYED.

12. MAJOR WATER PROJECTS. WORK ON THESE IS PROGRESSING ACCORDING TO PLAN AND FIRST PHASE OF ORANGE RIVER PROJECT IS NEARING COMPLETION. A MASTER PLAN FOR SOUTH WEST AFRICA HAS BEEN APPROVED AND CAN BE CARRIED OUT IN SUCCESSIVE PHASES "TO SUPPLY WATER NEEDS OF THE TERRITORY UP TO THE YEAR 2000."

13. HOUSING. GOVT HAS TAKEN STEPS TO ENABLE LOCAL AUTHORITIES
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TO PROVIDE HALLS, PARKS, SPORTS AND OTHER RECREATION FACILITIES AND BEAUTIFY GROUNDS IN CERTAIN TOWNSHIPS WHERE LOWER INCOME GROUPS LIVE; AND REDUCED CONSIDERABLY RENTALS AND INSTALLMENTS ON THOUSANDS OF HOMES FOR BOTH ECONOMIC AND SUB-ECONOMIC GROUPS. SUBSTANTIAL PROGRESS ALSO MADE IN PROVIDING HOUSING, ESPECIALLY FOR THE COLORED POPULATION.

14. HOMELANDS. IN CONSULTATION WITH HOMELAND GOVERNMENTS, DECISION WAS TAKEN TO REVISE THE BASIS FOR FINANCIAL ASSISTANCE FROM THE CENTRAL EXCHEQUER SO THAT CALCULATED AMOUNT OF CERTAIN INDIRECT TAXES ON COMMODITIES CONSUMED IN HOMELANDS, AS WELL AS CALCULATED TAX IMPOSED ON COMPANIES OR BRANCHES OF COMPANIES OPERATING IN HOMELANDS WILL BE ALLOCATED TO REVENUE FUNDS OF THE HOMELANDS.

15. COMMENT. PRESIDENT REVIEWED STATE OF THE ECONOMY AND CURRENT OUTLOOK IN GENERAL TERMS, OFFERED NO NEW GUIDANCE TO LEGISLATURE AND INDICATED CONTINUANCE OF EXISTING POLICIES ON TRADE, FUEL CONSERVATION AND MANAGEMENT OF THE ECONOMY, WITH HIGHER PRIORITY ON FOOD PRODUCTION. ON HOMELANDS HE CITED DECISION TO TRANSFER RELEVANT TAX RECEIPTS TO HOMELAND REVENUE FUNDS. COVERAGE OF LABOR, EDUCATION AND SOCIAL WELFARE TOPICS RELEVANT TO MAJORITY OF SOUTH AFRICAN POPULATION WAS MINIMAL AND FOCUSED ON JOB TRAINING AND UNQUANTIFIED PROGRESS IN HOUSING.
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